

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

**APPLICATION OF OXY USA INC. FOR ALTERNATIVE
NON-STANDARD SPACING AND PRORATION UNITS,
APPROVAL OF A NON-STANDARD PROJECT AREA AS NEEDED
AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.**

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CASE NO. 16058

APPLICATION

OXY USA Inc., (“OXY”) through its undersigned attorneys, hereby files this application with the Oil Conservation Division pursuant to the provisions of N.M. Stat. Ann. § 70-2-17, for an order (1) creating a 320-acre non-standard spacing and proration unit comprised of the W/2 W/2 of Section 35 and the W/2 W/2 of 26, Township 25 South, Range 29 East, NMPM, Eddy County, New Mexico; and (2) pooling all uncommitted interests in the Bone Spring formation underlying this acreage. *In the alternative*, Oxy seeks and order (1) creating a 280-acre non-standard spacing and proration unit comprised of the W/2 W/2 of Section 35 and the W/2 SW/4 and the SW/4 NW/4 of Section 26, Township 25 South, Range 29 East, NMPM, Eddy County, New Mexico; (2) approval of a non-standard project area comprised of this acreage; and (3) pooling all uncommitted interests in the Bone Spring formation underlying this acreage. In support of its application, OXY states:

1. OXY USA Inc., (OGRID No. 16696) is a working interest owner in the proposed non-standard spacing and proration unit and has the right to drill thereon.

2. OXY proposes to dedicate the above-referenced alternative spacing and proration units as the project area for the proposed **Corral Fly “35-26” Federal Com 21H Well** to be drilled from a surface location in the Lot 4 (NW/4 NW/4 equivalent) of Section 2 to *either* a bottom hole

location in the NW/4 NW/4 (Unit) D of Section 26 or, *in the alternative*, the SW/4 NW/4 (Unit E) of Section 26.

3. The completed interval for this well will remain within the 330-foot standard setback required by the Pierce Crossing Bone Spring, East Pool (Pool Code 96473).

4 The NW/4 NW/4 of Section 26 is a federal tract of land that only recently has been the subject of a lease sale. OXY understands from the BLM that this tract has been awarded to a bidding party, but the federal lease has not yet been issued.

5. OXY intends to include the NW/4 NW/4 of Section 26 in the proposed non-standard spacing and proration unit if possible. However, in the event that OXY is unable to include this recently leased acreage the company seeks *in the alternative* approval of the non-standard project area and the non-standard spacing and proration unit created by the exclusion of this 40-acre tract in Section 26.

6. OXY has sought and been unable to obtain voluntary agreement for the development of these lands from all of the interest owners in the proposed non-standard spacing and proration unit.

7. OXY has also discussed this proposed well with the BLM and the recently successful bidding party for the federal lease covering the NW/4 NW/4 of Section 26. However, Oxy has not yet confirmed or reached agreement on the inclusion of this acreage in the proposed non-standard spacing and proration unit.

8. The pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

9. In order to allow OXY to obtain a just and fair share of the oil and gas underlying the subject lands, all uncommitted interests in the proposed alternative non-standard spacing and

proration units should be pooled and OXY USA Inc. should be designated the operator of the proposed horizontal wells and spacing unit.

WHEREFORE, OXY requests that this application be set for hearing before an Examiner of the Oil Conservation Division on April 5, 2018, and, after notice and hearing as required by law, the Division enter an order:

- A. Creating the proposed 320-acre non-standard spacing and proration unit comprised of the W/2 W/2 of Section 35 and the W/2 W/2 of 26, *or in the alternative* (1) creating a 280-acre non-standard spacing and proration unit comprised of the W/2 W/2 of Sections 35 and the W/2 SW/4 and the SW/4 NW/4 of Section 26 and (2) approving the non-standard project area created by the exclusion of the NW/4 NW/4 of Section 26 from the proposed 280-acre non-standard spacing and proration unit;
- B. Pooling all uncommitted interests in the Bone Spring formation underlying the proposed alternative non-standard spacing and proration units;
- C. Designating the initial well for the alternative non-standard spacing and proration units;
- D. Designating OXY USA Inc. operator of the alternative non-standard spacing and proration units and the horizontal well to be drilled thereon;

- E. Authorizing OXY to recover its costs of drilling, equipping and completing the well;
- F. Approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures; and
- G. Imposing a 200% penalty for the risk assumed by OXY in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the wells.

Respectfully submitted,

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ATTORNEYS FOR OXY USA INC.

CASE 16058:

Application Of Oxy USA Inc. For Alternative Non-Standard Spacing And Proration Units, Approval Of A Non-Standard Project Area As Needed And Compulsory Pooling, Eddy County, New Mexico.

Applicant in the above-styled cause seeks an order (1) creating a 320-acre non-standard spacing and proration unit comprised of the W/2 W/2 of Section 35 and the W/2 W/2 of 26, Township 25 South, Range 29 East, NMPM, Eddy County, New Mexico; and (2) pooling all uncommitted interests in the Bone Spring formation underlying this acreage. *In the alternative*, Oxy seeks and order (1) creating a 280-acre non-standard spacing and proration unit comprised of the W/2 W/2 of Sections 35 and the W/2 SW/4 and the SW/4 NW/4 of Section 26, Township 25 South, Range 29 East, NMPM, Eddy County, New Mexico; (2) approving of a non-standard project area comprised of this acreage; and (3) pooling all uncommitted interests in the Bone Spring formation underlying this acreage. Said alternative non-standard spacing and proration units will be the project area for the proposed **Corral Fly "35-26" Federal Com 21H Well** to be drilled from a surface location in the Lot 4 (NW/4 NW/4 equivalent) of Section 2 to *either* a bottom hole location in the NW/4 NW/4 (Unit) D of Section 26 or, *in the alternative*, the SW/4 NW/4 (Unit E) of Section 26. The completed interval for this will remain within the 330-foot standard offset required by the Pierce Crossing Bone Spring, East Pool (Pool Code 96473). Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof, the actual operating costs and charges for supervision, designation of OXY USA Inc. as operator of the well and a 200% charge for risk involved in drilling said well. Said area is located approximately 9 miles southeast of Malaga, N.M.